

## The Role of Information Processing Activities and Social Capital in an Alliance Setting

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Vanessa Ratten  
School of International Business  
Queensland University of Technology  
Australia  
Phone: + 61 7 3864 1770  
Email: [v.ratten@qut.edu.au](mailto:v.ratten@qut.edu.au)

### Abstract

*Alliances are an interorganizational phenomenon which utilise information processing activities. The social capital of individual alliance partners influences the amount of information processing activities in terms of information acquired, information disseminated and behaviour responsiveness. This paper examines how learning occurs in alliances through sharing information between alliance partners. Propositions are identified which discuss how social capital relates to information processing activities in an alliance setting. Suggestions for future research are identified that highlight the infancy of the literature on linking alliance and social capital theory together.*

Key words: information, social capital, alliances

### Introduction

The aim of this paper is to examine the relationships between information processing activities, social capital and alliances. Whilst social capital and alliance theory are well established in the literature, less is known about the interrelationships between the theories and the role that information plays in their development. This paper first examines the background to the research noting the importance of investigating this topic. Next, the theory on social capital is discussed. The relationship between information processing activities and social capital in an alliance setting is then examined in which propositions are stated and discussed. Implications from this paper are followed, and suggestions for future research highlighted.

### Background to Research

Alliances are viewed in this paper as being flexible interorganizational structures that are cooperative agreements between two or more firms (Ireland, Hitt and Vaidyanath, 2002). A wide approach to alliances is taken as the importance is placed on information processing activities and social capital rather than examining different types of alliances. This allows the paper to be fully encapsulating of a number of alliance types; including joint ventures, franchising agreements and licensing arrangements. Also, there is not a bias towards international alliances nor domestic alliances because of the focus on the process activities of information.

A number of researchers have highlighted the importance of learning in alliances (e.g. Inkpen, 2000; Simonin, 1997; Tsang, 2002). A major motivation for learning in alliances is that it enables alliance partners to internalise information (Kale, Singh and Perlmutter, 2000). Information is defined in this paper as knowledge that can be transferred without loss of reputation (Kale et al., 2000). The underlying premise of the alliances discussed in this paper is that they involve learning.

Learning occurs in alliances when knowledge and skills are shared amongst the alliance partners (Lei and Slocum, 1992). Knowledge can include information about new market developments and potential international expansion opportunities, whilst skills are defined quite broadly to include how to manufacture a product or how to increase communication among organizational members. The knowledge and skills learnt in an alliance will reduce the level of information asymmetry occurring (Koza and Lewin, 1998).

This paper examines information processing activities from a knowledge based perspective; hence the paper is posited on the knowledge based view of the firm. The knowledge based view asserts that knowledge is a strategic resource of a firm (Ghoshal and Moran, 1996) and it is the way in which firms use their knowledge that enables firms to process their information. Knowledge in alliances is important due to management reasons, alliance partners and organizational strategy (Lyles and Salk, 1996). The ability of an organization to enter new international markets or to get technological know-how is reliant on the managerial expertise of alliance partners. Managers with contacts in other organizations both domestically and internationally enable information to flow at a faster rate. Information about good alliance partners who are trustworthy and have a good reputation are also on the basis of information from alliance partner managers. The amount of information alliance partners share is also reliant on the extent to which the alliance can benefit from this information. For example, information about cost savings can be shared amongst alliance partners if it enables the alliance as a whole to benefit whilst information about changes in market conditions will be kept to the individual alliance partner to examine if it is important for organizational strategy.

Learning occurs in organizations through organizational members responding to environmental changes (Argyris and Schon, 1978). Individuals have knowledge but it is when information is shared that learning occurs (Honig, 2001). Alliances enable knowledge to be shared amongst alliance partners (Sinkula, Baker and Noordewier, 1997). There are a number of different types of knowledge which are particularly useful in alliances. An important source of information is experiential knowledge which encapsulates business, institutional and international knowledge (Eriksson, Majkgard and Sharma, 2000). Alliances also enable experiential learning as alliance partners learn at an incremental rate during the evolution of an alliance. Huber (1991) highlights that experiential learning occurs through direct experience and experiential learning can be intentional or unintentional (Zahra, Nielsen and Bogner, 1999).

### **Social Capital**

During the last decade, social capital has gained increasing prominence in the international business literature. The literature on social capital exists at the micro and macro perspective. At the micro perspective, social capital is concerned with resource allocation (e.g. Nahapiet and Ghoshal, 1998; Yli-Renko, Autio and Tontti, 2002) whilst at the macro perspective, social capital focuses on the relationships an organization has (e.g. Tsai and Ghoshal, 1998; Walker, Kogut and Shan, 1997). This paper concentrates on the macro perspective as alliances are the interorganizational mechanism under investigation.

There is a plethora of definitions on social capital and there is no established universal definition. Bourdieu and Wacquant's (1992) define social capital as the resources a firm has from its relationship networks. Hitt and Ireland (2002) also focus on the relational aspect by defining social capital as the relationships between both organizations and individuals that enable action to take place. Leana and Van Buren (1999: 540) highlight the organizational perspective by defining it as "a resource reflecting the character of social relations within the organization, realized through members' levels of collective goal orientation and shared trust". This paper adopts Leana and Van

Buren's definition of social capital as it is posited at the organization level and highlights the importance of trust in alliances.

Social capital relates to the concept of trust (Woolcock, 1998). Prior research has equated social capital with trust and in this paper trust is a critical foundation for social capital (Nahapiet and Ghoshal, 1998). Other researchers have incorporated the idea of cooperation and trust as being the foundation needed for social capital (e.g. Krishna, 1999; Fukuyama, 1995).

Social capital is also related to the knowledge based view of the firm as it enables both organisations and individuals to acquire knowledge. When individuals have social capital there is a positive expectation about their social relations (Lin, 1999). Some scholars view social capital as being social structures of interpersonal contacts (Sanderfur and Laumann, 1998). The social structure is a combination of contacts that individuals, organizations and communities have rather than focusing specifically on individuals. This conceptualisation of social capital has been referred to as a public good (e.g. Adler and Kwon, 2002; Putnam, 1993). It also predates to Jacobs (1965) initial work in which the relationships between community and family were deemed social capital. Other scholars view social capital as being focused on an individuals relationships with other individuals (e.g. Adler and Kwon, 1999; Lin, 1982). This paper conceptualises social capital as being social structures as the way in which alliances foster information activities is examined. Thus, social capital existing in alliance partners is both a public and private good. This is in line with Kostova and Roth (2003) who state that social capital is both a public and private good.

In an alliance context it is important to distinguish between internal and external social capital. Internal social capital is "the relationships between strategic leaders and those whom they lead as well as relationships across all of an organization's work units" (Hitt and Ireland, 2002:5). In an alliance, information is disseminated between alliance partners based on the individual alliance partner's internal social capital. The strategic leaders are the alliance partner's managers. External social capital is "the relationships between strategic leaders and those outside the organization with whom they interact to further the firm's interest" (Hitt and Ireland, 2002:6). Thus, alliances by definition are about external social capital but within the context of information processing activities enable firms to obtain information from internal social capital sources that will be beneficial for the alliance. Therefore, this paper refers to social capital as being a combination of both internal and external social capital.

The ability of an organisation to utilise information gained from an alliance will depend on its social relationships. Social relationships in this paper are referred to as social capital and are defined as "the sum of the company's personal and organizational relationships with its environment and its position in industry-related and regional networks" (Hoffman and Schaper-Rinkel, 2001:141). Social capital is critical in the ability of an organisation to utilise information gained from it alliance partners to increase its performance. Performance can be in the context of creating stronger ties with existing alliance partners or entering new markets. The important most important measure is that the organisation has gained some kind of advantage from the alliance. In terms of social capital and alliances, organisations that have a high level of social capital have been found to use alliances more (Hoffman and Schaper-Rinkel, 2001).

The social capital of an alliance partner is reflected in the level of integrity it has with its other alliance partners. Integrity is a hard concept to measure but it can be likened to the level of trust and reputation an organisation has. In learning alliances, social capital plays an important role in facilitating the flow of information. When an organisation trusts that the information it shares with its alliance partners will not be shared with its competitors then a greater level of information

will flow between the alliance partners. Trust can be facilitated through the alliance partners having experience in dealing with each other. Social capital is important in increasing the amount of information shared as alliance partners more readily trust each other and share information when it becomes necessary for alliance members to adapt to endogenous and exogenous factors relating to alliance learning success. Endogenous factors include having the money to turn creative ideas into market success and exogenous factors include having the contacts in an overseas market which will enable better market entry.

Just as social capital emphasises the importance of organizations to maintain relationships that encourage trustworthy behaviour, so does that of alliance learning. It is important for organisations to build upon the existing social capital they have and their alliance partners have in order to maintain good relationships with organisations that can successfully channel information gained into successful outcomes. Indeed, it is important in the alliance context that all marketing activities are “directed toward establishing, developing, and maintaining successful relational exchanges” (Morgan and Hunt, 1994:22). Alliances enable organisations to gain information but relationships amongst other firms must also be in existence in order to make the organisation a holistic organisation that has successful internal and external relationships that facilitate learning. Woolcock (1998) highlights that information, trust and relational norms are inherent in an individual’s social networks. Thus, through social capital an individual can access information more easily.

### **Information Processing Activities**

Information is processed in many ways. This paper identifies information processing as being acquiring information, disseminating information and behaviour responsiveness to the information. Information can take a variety of forms including market knowledge and international knowledge. Firms acquire information in a variety of ways including market research but for the purposes of this paper, information is acquired from the alliance relationship. Firms acquire information from their alliance partners but alliance partners that trust each other are likely to share more information. Hence, alliance partners who are suspicious of alliance partners being opportunistic will share less information (Kale et al., 2000). Alliance partners who have a good relationship with their partners are likely to perform better (Ireland, Hitt and Vaidyanath, 2002). Social capital theory highlights that communication is an important determinant role (Watson and Papamarcos, 2002). Having social capital will enable alliance partners to acquire more information. Thus, the first proposition is:

*Proposition 1: The greater the social capital of alliance partners, the more information will be acquired from the individual alliance partners*

Once information is acquired it can then be disseminated within the alliance. Dissemination of information has also been referred to as communication (Cannon and Perreault, 1999). Firms are motivated to form alliances as they believe information will be freely exchanged (Jap and Ganesan, 2000). From a social capital perspective, relationships develop from social interactions and repeated transactions (e.g. Tsai and Ghoshal, 1998; Uzzi, 1996; Ring and Van de Ven, 1994). Alliances themselves are a form of social capital (Dyer and Singh, 1998). Thus, social capital produces a mutually beneficial relationship (Hitt and Ireland, 2002). This leads to the next proposition:

*Proposition 2: The greater the social capital of alliance partners, the more information will be disseminated between the alliance partners*

It is important for a firm and an alliance’s performance that something is done with the information once it has been acquired and disseminated. Behaviour responsiveness is when information is interpreted and given meaning (Daft and Weich, 1984). Cohen and Prusak (2001:4)

states that social capital enables “shared values and behaviours that bind the members of human networks and communities and make cooperative action possible”. Also, alliance partners from different cultural backgrounds will benefit from social capital as they can utilise information received in the alliance for extraneous purposes such as to increase production output. Child and Faulkner (1998) highlight that the social interactions of organizations influence the amount of trust existing between two organizations. External social capital will influence the extent to which alliance partners respond to change. Zhao and Aram (1995) found that organizations with external social capital have better access to external information as they have more networking contacts. Research has also highlighted the effects of social capital on performance. Walker et al. (1997) found that social capital impacted the industry growth rate in the biotech industry whilst Yli-Renko et al. (1999) found that social capital results in more learning occurring between technology firms. Hence, the next proposition is:

*Proposition 3: The greater the social capital of alliance partners, the more behaviour responsiveness there will be between the alliance partners*

### **Implications and Suggestions for Future Research**

Social capital is an important area of research for international business academics and practitioners and is becoming increasingly popular as a theoretical framework. Managers involved in alliances realise that in many cases alliances are formed because of social capital reasons. Many organizations form alliances for the ability to gain information about personal contacts and business networks. However, alliance managers need to examine how much information and the quality of the information shared between alliance partners. This can be through an examination of information processing activities in alliances that comprise how the alliance partners acquire information, how they disseminate the information and how they respond to the information gained. Social capital theory provides a useful foundation to examine the effects of these information processing activities.

In this paper, the social capital of alliance partners was examined in terms of information processing activities. The literature on market orientation discusses in much detail these information processing activities. However, more research is needed to link together the literature on information, social capital and alliance learning. This working paper has identified important propositions which need to be tested empirically. The link between information and social capital is interesting as it has many dimensions. For example, future research can examine how alliance partners share information and the role that external contacts and networks have to successful alliance performance.

### **Conclusion**

This working paper has examined what the role of information processing activities and social capital are in an alliance setting. The background to the research identified the importance of learning in alliances as setting in which to examine social capital and information processing activities. Social capital literature was discussed in terms of its relevance to information and alliances. Propositions were identified that linked social capital with information acquired, information disseminated and behaviour responsiveness in an alliance context. Implications for practice and suggestions for future research were discussed.

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